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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 002226

SIPDIS

E.O. 12958: DECL: 06/07/2016

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SUBJECT: FM LIVNI DISCUSSES FUNDING MECHANISM, PALESTINIAN PRISONERS' DOCUMENT, AND GTIP

Classified By: Ambassador Richard H. Jones; Reasons: 1.4 (B and D).

1. (C) SUMMARY: In a June 7 meeting with NEA A/S David Welch, the Ambassador, and NSC/IPA/J Director Greg LoGerfo, Foreign Minister Tzipi Livni reiterated Israel's willingness to help avoid any humanitarian crisis in the Occupied Territories. A/S Welch urged the GOI to consult closely with the USG on the alternate funding mechanism. Livni said that Israel has few problems with the current draft of the mechanism, but remains firmly opposed to any payment of salaries as part of the third window. Livni criticized the content of the prisoners' document that may form the basis for a referendum within the Palestinian Authority (PA). She also questioned whether President Mahmud Abbas has considered what he ultimately wants to achieve with a referendum and expressed concern that he will use it to focus on final status issues, a tactic that she said will fail and result in further violence. A/S Welch urged the GOI to keep the end goal -- the removal of, or change in policy by, Hamas -- in mind. He agreed with Livni that the international community has made progress in isolating Hamas by maintaining a unified commitment to the Quartet's principles. At the end of the meeting, Livni expressed real "disappointment" that Israel had been downgraded by the latest TIP report. END SUMMARY.

Upcoming GOI Decision on Alternate Funding Mechanism

2. (C) Livni noted that the alternate funding mechanism will undoubtedly be a major topic during her trip to Europe during the week of June 11. She said that the GOI's general message is that Israel is willing to use the revenues it collects on behalf of the PA to help avoid any humanitarian crisis. She said a decision on whether the GOI would utilize the alternate funding mechanism will be made after Israel is certain that it would only be used for humanitarian purposes and not to fund the Hamas government. A/S Welch urged the GOI to consult closely with the USG prior to making any decision on the mechanism.

3. (C) Livni added that the GOI has few concerns about the proposal as it now stands, despite some unease over what the mechanism -- or other parallel structures -- might cover in the future. Specifically, she stressed that on June 5 she had bluntly told EU HighRep Javier Solana that "salaries are not acceptable." Livni also opposed any support for what she called the "Hamas education of incitement." In reaction to Livni's concerns about the timeline for the mechanism, A/S Welch reassured her that the USG takes the Quartet language on "limited in scope and duration" seriously. Livni shared A/S Welch's assessment that any Arab League funding should either be disbursed through the mechanism, or, at the very least, be bound by its rules.

4. (C) Livni claimed that the PA Ministry of Health had told the World Health Organization that they would not accept Israel's offer to use approximately USD 10.2 million of GOI-collected PA revenues to purchase medicines, but would accept cash assistance. In Livni's assessment, the subtext of the PA's refusal is that "there is no crisis." Livni expressed concern that some Europeans fail to understand that Abbas is using the difficulties faced by Hamas to strengthen his own hand internally and to obtain movement on the prisoners' document. In her view, it is not in the interest of Abbas to open new windows to transfer funds and salaries to the PA.

5. (C) A/S Welch outlined U.S. views of the current European draft of the alternate funding mechanism. The USG believes that the "first window" may be too open-ended; the Presidency should be the recipient -- and not a conduit -- for funding to avoid removing the onus of failure from the Hamas-led Finance Ministry. A/S Welch said that the U.S. has no real difficulty with the "second window" involving EU payment of fuel supplies for the Gaza power plant. A/S Welch noted that the USG had objected strenuously to any payment of salaries as part of the "third window." The U.S. has had at least limited success in focusing the Europeans, and even Abbas, in the direction of a needs-based mechanism independent of the government payroll. A/S Welch also mentioned that the USG would prefer to see an international or European bank handle the transfers to ensure proper oversight. On timing, A/S Welch suggested that approval of a mechanism should wait until after Abbas has made a decision on the referendum

issue, despite EU pressure for an agreement by June 12.

GOI Concerns With the Prisoners' Document

16. (C) Livni asked if the Palestinians themselves know what they want to achieve with the potential referendum on the prisoners' document. A/S Welch replied that the advisers to Abbas intend to use the referendum to overcome the current stalemate and get rid of Hamas by dissolving the government. Livni questioned how this could happen, claiming that Abbas had been unclear about his legal ability to dismiss the government when she met with him in Egypt on June 21. She expressed doubt that Hamas would resign or accept removal without a fight.

17. (C) Livni strongly criticized the content of the prisoners' document, saying it falls short of the Quartet's conditions and "cannot be part of the process between Israelis and Palestinians." She added that Abbas must understand that Israel is willing to strengthen him in his showdown against Hamas, but -- if he is successful -- Abbas must return to the Roadmap or work on realignment, not focus on final status issues. In her opinion, the gap between the GOI and PA is too wide for any progress on final status issues in the next nine months. She cautioned that any initiative to address final status issues would fail, thereby strengthening Hamas and increasing violence.

18. (C) A/S Welch urged the GOI to keep the end goal in mind -- an end to a Hamas government -- without becoming mired in the procedural details or exact wording of a referendum. He said that the USG shares many of the GOI's concerns with the prisoners' document, but wants to strengthen Abbas while simultaneously avoiding steps that could be seen as interference and endangering the safety of Palestinian reformers.

Isolation of Hamas

19. (C) A/S Welch outlined progress on the international community's steps to isolate Hamas unless it accepts the Quartet's three conditions. He noted that the Arab League has delivered little of its promised assistance, many of the Arab states are averse to assisting Hamas, some Gulf states appear more concerned about Iran than the Palestinians, and the Europeans remain on board despite their unease about the -- often overstated -- humanitarian situation in Gaza. Livni stressed the importance of maintaining the Quartet's strategy, admitting that she had been pleasantly surprised by the strength of international solidarity opposing Hamas.

Disappointment with Trafficking in Persons (TIP) Status

10. (C) Both Livni and Ambassador Ayalon expressed real "disappointment" that Israel had been downgraded by the latest TIP report, despite concrete progress in fighting trafficking in women and ongoing efforts to end trafficking in labor. The Ambassador noted that passage of legislation to criminalize labor trafficking would be a big step forward.

11. (U) A/S Welch has cleared this cable.

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